House of Representatives

General Assembly

File No. 529

February Session, 2018

Substitute House Bill No. 5133

House of Representatives, April 17, 2018

The Committee on Finance, Revenue and Bonding reported through REP. ROJAS of the 9th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT ESTABLISHING A TAX CREDIT FOR CERTAIN EMPLOYERS MAKING EDUCATION LOAN PAYMENTS FOR EMPLOYEES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective January 1, 2019, and applicable to income or taxable years commencing on or after January 1, 2019*) (a) As used in this section:

(1) "Qualified employee" means an employee who is required to work at least thirty-five hours per week;

(2) "Qualified employer" means an employer that employs fifty or fewer employees in the state; and

(3) "Financial aid package" means financial aid obtained by a qualified employee as a student for attendance at an institution of higher education in this or another state.

(b) (1) Commencing January 1, 2019, and in each income or taxable year thereafter, as applicable, any qualified employer that employs a qualified employee and makes loan payments directly to a lender or lenders on a loan included in such qualified employee's financial aid package may claim a credit against the tax imposed under chapter 208 or 229 of the general statutes, as applicable. Such credit shall be equal to fifty per cent of the amount of the actual monthly loan payment made by such employer on the loan, multiplied by the number of months during the income or taxable year, as applicable, such employer made loan payments on behalf of the qualified employee during the term of employment.

(2) A qualified employer may claim a credit under this subsection for loan payments actually made to a relevant lender or lenders only with respect to (A) loans that are part of a qualified employee's financial aid package, and (B) loan payment amounts paid by the qualified employer during that part of the income or taxable year, as applicable, that the qualified employee worked in the state, provided a qualified employee who worked in the state for any part of a month shall be deemed to have worked in the state for the entire month. Any payment of loan amounts in excess of the amounts due during the income or taxable year, as applicable, shall not qualify for the credit.

(3) Refinanced or consolidated loans that are part of the qualified employee's financial aid package are eligible for the credit under this subsection if the refinanced or consolidated loan remains separate from other debt, except for debt incurred in an educational program, but only in proportion to the portion of the loan payments that are otherwise eligible under this section.

(4) A qualified employer may not claim the credit under this subsection (A) with respect to months of the income or taxable year, as applicable, during which the employee was not a qualified employee, or (B) for more than three years with respect to any specific qualified employee.

(c) A qualified employer that claims the credit under subsection (b) of this section shall provide any documentation required by the

Commissioner of Revenue Services in a form and manner prescribed by said commissioner.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*January 1, 2019, and applicable to income or taxable years commencing on or after January 1, 2019*	New section

Statement of Legislative Commissioners:
In Section 1, references to income year and "as applicable" were added for accuracy.

FIN *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 19 $	FY 20 $
Department of Revenue Services	GF - Revenue Loss	None	Up to 110 million
Department of Revenue Services	GF - Cost	Less than 164,051	118,734
State Comptroller - Fringe Benefits[1]	GF - Cost	32,352	43,136

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a business tax credit for qualified student loan payments made by employers with 50 or fewer employees, results in: 1) an annualized revenue loss of up to $110 million beginning in FY 20, 2) a one-time cost to the Department of Revenue Services (DRS) of less than $75,000 in FY 19, and 3) an annual cost to the DRS of $161,870 ($118,734 for salary and $43,136 for fringe costs) associated with two Revenue Examiners.

The actual revenue loss is dependent on: A) the number of firms making eligible loan repayments, B) the number of employees participating in qualified employer loan repayment programs, and C) the total amount of qualified loan repayment by employers.

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 36.33% of payroll in FY 19 and FY 20.

The revenue estimate is based on data from the Society for Human Resource Management's 2017 Employee Benefits survey report indicating that approximately 4% of employers provide loan repayment assistance. The estimate assumes approximately 35% of employees have student loans outstanding and an average repayment amount of $5,000 per employee annually (based on amounts from companies that currently offer the benefit, such as Aetna, PwC, and Fidelity).

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: *Federal Reserve Bank of New York "Quarterly Report on Household Debt and Credit 2017:Q3"*
Society for Human Resource Management 2017 Employee Benefits Survey
StudentLoanHero.com "17 Companies That Help Employees Pay Off Their Student Loans"
United States Census Bureau 2015 County Business Patterns

OLR Bill Analysis
sHB 5133

AN ACT ESTABLISHING A TAX CREDIT FOR CERTAIN EMPLOYERS MAKING EDUCATION LOAN PAYMENTS FOR EMPLOYEES.

SUMMARY

This bill creates a new corporate and personal income tax credit for employers with 50 or fewer employees (i.e., “qualified employers”) that make student loan payments on behalf of employees who must work at least 35 hours per week (i.e., “qualified employees”). Employers may claim this credit starting in the income or taxable year (“year”) that begins on or after January 1, 2019, and in each subsequent year.

Under the bill, the credit equals 50% of the actual eligible monthly payment the employer paid on an employee’s qualified loans, multiplied by the number of months during the year that the employer made the payment.

The bill prohibits employers from claiming the credit for (1) months in which the employee was not required to work at least 35 hours a week and (2) more than three years for any specific employee.

The bill requires employers claiming the credit to provide the revenue services commissioner with any documentation he requires, in the form and manner he determines.

EFFECTIVE DATE: January 1, 2019, and applicable to income or taxable years starting on or after that date.

ELIGIBLE LOANS AND PAYMENTS

Under the bill, only payments on loans that are part of an employee’s “financial aid package” are eligible for the credit.

"Financial aid package" refers to financial aid an employee obtained as a student to attend a higher education institution in any state. To qualify, the payments also must be (1) made directly to relevant lender or lenders and (2) paid during the part of the income or taxable year in which the employee worked in Connecticut. Employees who work in the state for any part of a month are deemed to have worked here for the entire month.

Under the bill, refinanced or consolidated loans that are part of an employee's financial aid package are eligible for the credit if they remain separate from debt the employee did not incur in an educational program. But such loans are only eligible in proportion to the portion of the loan payments that are otherwise eligible under this section. (It appears that payments on any debt incurred in an educational program would be eligible for the credit, so presumably 100% of such a refinanced or consolidated loan could qualify if it met all other requirements.)

Under the bill, any amount an employer pays on an employee's loan that exceeds the loan payments due during the year does not qualify for the credit.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 39 Nay 11 (04/05/2018)